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# Tayside Superannuation Funds

Annual audit report to Dundee City Council  
as administering authority for Tayside Superannuation Funds  
and the Controller of Audit

Audit: Year ended 31 March 2013

25 September 2013



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The contacts at KPMG in connection with this report are:

**David Watt**

*Director, KPMG LLP*

Tel: 0141 300 5695

Fax: 0141 204 1584

david.watt@kpmg.co.uk

**Michael Wilkie**

*Manager, KPMG LLP*

Tel: 0141 300 5890

Fax: 0141 204 1584

michael.wilkie@kpmg.co.uk

**Andrew Clark**

*Manager, KPMG LLP*

Tel: 01224 416 954

Fax: 01224 590 909

andrew.clark3@kpmg.co.uk

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**About this report**

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Dundee City Council as administering authority for Tayside Superannuation Funds ("the Council") and is made available to Audit Scotland and the Accounts Commission (together "the beneficiaries"). It has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

We also draw your attention to the following:

- management of Dundee City Council are responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems;
- weaknesses or risks identified by us are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist; and
- communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve Dundee City Council management from its responsibility to address the issues raised and to maintain an adequate system of control.



## Executive summary

# Headlines

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the Code"). This specifies a number of objectives for our audit.

In accordance with ISA (UK and Ireland) 260: *Communication with those charged with governance*, this report summarises our work in relation to the financial statements.

We wish to record our appreciation of the co-operation and assistance extended to us by Council staff during the course of our work.

### Introduction

The year ended 31 March 2013 is the fourth year for which local authorities responsible for administering a pension fund forming part of the Local Government Pension Scheme have been required to publish an annual report and financial statements for the pension fund separate from the authority's own financial statements.

This report summarises our work in respect of the Tayside Superannuation Fund ("Main Fund") and Tayside Transport Superannuation Fund ("Transport Fund"), together for the purposes of this report, "the Funds". In addition to Dundee City Council ("the Council"), there are 14 other scheduled bodies and 30 admitted bodies participating across the Funds, with a total contributing membership of 17,500.

A triennial valuation was performed for the Funds as at 31 March 2011. This reflected a slight increase in the long term funding position of both the Main Fund and Transport Fund from 97.6% and 92.3% to 98.2% and 96.6% funded, respectively. The employers' contribution rate was decreased from 18.5 to 18% for the Main Fund and to a reduced fixed value for the Transport Fund.

### Financial statements

Draft financial statements were provided on 30 June 2013, in line with the statutory and agreed timetable. These were complete and to a high standard. Supporting evidence was available for the commencement of our audit.

Overall, we consider arrangements in the control environment associated with the compilation of the financial statements to be appropriate for the Funds. We identified one minor control deficiency in respect of the monthly contribution tracker, maintained by the pensions team which details receipt of contributions from scheduled and admitted bodies. Use of the tracker could be enhanced through regular, independent review.

**Recommendation one**

We have issued unqualified audit opinions on the 2012-13 financial statements.

### Use of resources

Management does not set annual budgets for the Funds as much of the income and expenditure is outside its direct control. Management does, however, monitor the performance of investments and this is reported regularly to the superannuation investments sub-committee based on an agreed benchmark. In the year to 31 March 2013 the benchmark for the Main Fund was set as 13.76%, and for the Transport Fund, 12.96%, both of which were exceeded.

### Governance

The governance compliance statement is in line with that published with the 2011-12 financial statements. Full or partial compliance is reported in respect of the majority of areas. The statement notes that not all employing authorities are represented within the Funds' committee structure, but there is an employers' forum which meets to consider investments together with a four monthly administration meeting which considers procedural arrangements.



## Financial statements

# Accounting policies; technical accounting matters

**The Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 (“the Code”) did not include any major amendments for pension fund financial statements. All accounting policies have been applied consistently.**

<b>Accounting policies</b>	There have been no changes to accounting policies in 2012-13. The accounting policies of the Funds remain appropriate.
<b>Code of practice on Local Authority Accounting in the United Kingdom 2012-13 (“the Code”)</b>	The 2012-13 financial statements have been prepared in accordance with the Code supported by International Financial Reporting Standards (“IFRS”). There were no changes to the Code impacting on the pension fund and accounting policies have been applied consistently year on year.
<b>Accounting adjustments</b>	There no adjustments arising from our audit procedures and there are no unadjusted audit differences to report. We recommended a number of presentation enhancements which were accepted and updated by management.

**Management does not budget financial performance of the Funds due to the nature of income and expenditure.**

**Investments returns are monitored throughout the year and the performance of investment managers is subject to regular review against benchmarks.**

Management do not budget financial performance as the majority of income and expenditure is outwith the control of the Funds such as contributions receivable and pensions payable. The key financial indicator for the Funds is considered to be the performance of the Funds' investments. This is monitored through the year and reported to the superannuation investment sub-committee of the Council's policy & resources committee on a quarterly basis.

The superannuation investment sub-committee engages custodian Northern Trust to produce measurement statistics for both Funds. These are measured against performance benchmarks, which were 13.76% for the main fund and 12.96% for the transport fund in respect 2012-13.

The net assets of the Main Fund and Transport Fund increased by £303.2 million and £5.6 million in the year, respectively, primarily as a result of investment income and gains on the market value of investments.

The superannuation investment sub-committee regularly considers the performance of individual fund managers. With the exception of Alliance Bernstein, all investment managers have outperformed the benchmark in respect of the year ended 31 March 2013. Alliance Bernstein's performance remains below benchmarks, but has been subject to scrutiny and has improved over the last year.

It is recognised that investment risks, such as equity and active management risks, are taken by the Funds and these impact on the volatility of returns. The superannuation investment sub-committee set out an initial risk register, demonstrating understanding of risks, in February 2011. The risk register is updated annually, with the latest version approved in March 2013.

In line with other Scottish local authorities, the Funds were renamed as Tayside Pension Fund and Tayside Transport Pension Fund, respectively. These name changes were approved by the superannuation investment sub-committee on 3 June 2013.

There are a number of developments on the horizon for pension Funds, such as auto-enrolment. Members should ensure that they give ongoing consideration to any training or advice they may require to carry out their responsibilities for the pension fund going forward.

The next actuarial valuation will be carried out as at 31 March 2014 and the funding strategy statement will continue to be reviewed annually, next due in March 2014.



Over-arching and supporting corporate governance arrangements were subject to change and continue to provide a sound framework for organisational decision-making.

Governance compliance statement

The governance compliance statement included within the 2012-13 annual report shows continued compliance in the majority of areas. The statement notes that not all employing authorities are represented within the Funds' committee structure, but there is an employers' forum which meets to consider investments together with a four monthly administration meeting which considers procedural arrangements.

Corporate governance and internal control arrangements

The governance compliance statement for the Funds was approved by the superannuation investment sub-committee on 29 August 2011 and is consistent with our understanding of governance arrangements. The statement should be subject to an annual review by the superannuation investment sub-committee and action taken to enhance any areas which only report partial or non-compliance where appropriate.

Standards of conduct and prevention and detection of corruption

Management of the Funds is undertaken by Council staff who are therefore subject to Council policies on standards of conduct, fraud and corruption. Our testing of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively.

**Recommendation two**

Management representation letter

In accordance with International Standards on Auditing (UK & Ireland) management is required to provide us with representations on specific matters such as your financial standing, application of accounting policies, and whether the transactions in the financial statements are legal and unaffected by fraud. The representation letter contains standard matters and there are no issues in this regard that we wish to bring to your attention.



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# Appendices

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The action plan summarises specific recommendations arising from our work, together with related risks and management's responses.

### Priority rating for recommendations

**Grade one** (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.

**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<b>Grade three</b>		
<b>1 Contributions tracker</b>		
<p>There is a contribution tracker maintained by the pensions team on a monthly basis which details contributions which have been received from scheduled and admitted bodies. It is used to ensure that amounts due are collected but is not subject to regular review.</p> <p>There is a risk that contributions are incorrectly recorded as received or not received in a timely manner which impacts upon the ability of the Funds to generate investment income.</p>	<p>It is recommended that management implement a monthly review of the contributions tracker.</p>	<p>Agreed.</p> <p><b>Responsible officer:</b> Pension Fund Accountant</p> <p><b>Implementation date:</b> October 2013</p>
<b>Grade two</b>		
<b>2 Governance compliance statement</b>		
<p>The governance compliance statement for the Funds was approved by the superannuation investment sub-committee on 29 August 2011.</p> <p>There is a risk that actions to enhance controls where there is non or partial compliance are not implemented in a timely manner.</p>	<p>It is recommended that the statement should be subject to an annual review by the superannuation investment sub-committee and action taken to enhance any areas which only report partial or non-compliance where appropriate.</p>	<p>Agreed.</p> <p><b>Responsible officer:</b> Financial Services and Investment Manager</p> <p><b>Implementation date:</b> March 2014</p>



## Appendix two

# Auditor independence

**We are required by ethical standards to formally confirm our independence you.**

**There are no specific matters which have impinged on our independence.**

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships, (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

We are satisfied that our general procedures support our independence and objectivity.

### **General procedures to safeguard independence and objectivity**

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through:

- instilling professional values;
- communications;
- internal accountability;
- risk management;
- independent reviews.

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Council.

It was felt not necessary to put any safeguards in place.

### **Confirmation of audit independence**

We confirm that as of 25 September 2013, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Lead and audit staff is not impaired.

This report is intended solely for the information of the Council and should not be used for any other purposes.

Yours faithfully

**KPMG LLP**

### Financial statements

Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice);
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

### Systems of internal control

Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.

### Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions;
- developing and implementing strategies to prevent and detect fraud and other irregularity;
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and

- participating, when required, in data matching exercises carried out by Audit Scotland.

### Standards of conduct and arrangements for the prevention and detection of bribery and corruption

Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers;
- promoting appropriate values and standards; and
- developing, promoting and monitoring compliance with standing orders and financial instructions.

### Financial position

Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified;
- compliance with any statutory financial requirements and achievement of financial targets;
- balances and reserves, including strategies about levels and future use; and
- the impact of planned future policies and foreseeable developments on their financial position.

### Best Value

Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.



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